



# Washington State Auditor's Office

## Preventing and Detecting Fraud in your Organization

### Reporting Losses (RCW 43.09.185)

- All suspected or known losses, including:
- Money and other assets
- Other illegal acts

Report fraud online at [www.sao.wa.gov](http://www.sao.wa.gov).

### Responsibility of Management

- Protect their employees by establishing policies and procedures designed to safeguard funds from loss.
- Ability to fix` responsibility for funds to a particular employee at a point in time, all the time.
- Ensure proper segregation of duties.
- Monitor financial activity and understand it so you can identify irregularities.
- Trust your employees and co-workers to a point.

### Cash Receipting Schemes

- Skimming
  - Generally involves off-book sales or services that are never recorded in the books – employee misappropriates the funds
- Larceny
  - Involves misappropriating funds that are already recorded in the accounting system
    - Daily deposits
    - Less cash schemes
    - Voids and returns
    - "Missing" funds

### Red Flags of Cash Receipting Fraud

- Lack of segregation of duties or other compensating controls
- Deposits not made daily and intact
- Check/cash composition of the daily deposit does not agree to the mode of payment on the cash receipts
- Cash deposits differ from normal patterns
- Inventory discrepancies

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**Report Fraud Online**

State and local governments can report loss through our website at [www.sao.wa.gov](http://www.sao.wa.gov)



**DSI**  
Division of Special Investigations

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- Unusual over/short activity
- Missing deposit slips
- Unusual journal entries
- High void activity

## **Cash Receipting Prevention and Detection**

- Have adequate segregation of duties or other compensating controls
- Compare bank deposits to cash receipt records and verify the mode of payment agrees
- Review voided transactions to ensure they are supported
- Verify inventory records agree to usage
- Review bank reconciliations

## **Accounts Payable Disbursements**

- Causing employer to issue a payment by submitting invoices for:
  - Fictitious goods or services
  - Inflated invoices
  - Invoices for personal purchases

## **Red Flags of Accounts Payable Fraud**

- Higher-than-usual costs
- Excess goods and services
- Copies of documents rather than originals
- Missing documents
- Unusual vendors
- Unusual changes in the behavior or lifestyle of employees
- Unusual endorsements on the checks

## **Accounts Payable Prevention and Detection**

- Have adequate segregation of duties or other compensating controls
- Review vendor listings for unusual vendors or excessive payments to vendors
- Ensure voided transactions are truly voided
- Review for transactions that are out of the ordinary
- Only pay original invoices – make sure they make sense
- Ensure payments made outside normal process are approved, supported and for public purpose
- Ask questions and confirm with a third party if necessary

## **Expense Reimbursements**

- Any scheme in which an employee makes a claim for reimbursement of fictitious or inflated business expense such as:
  - Charging for items used for personal reasons
  - Seeking reimbursement for travel and expenses when they were paid on company credit card or advanced travel
  - Billing for expenses that did not occur
  - Falsifying receipts to make the purchases business related
  - Inflating mileage

## **Red Flags of Expense Reimbursement Fraud**

- Expenses exceed what was budgeted or prior year totals
- Expenses claimed on days the employee did not work
- Minimal or non-existent support behind the request
- Support is photocopies, not originals
- Expenses all end in round numbers
- Reports were approved by someone outside the department
- Unusual or excessive reimbursements to one employee

## **Employee Reimbursement Fraud Prevention and Detection**

- Have adequate segregation of duties or other compensating controls
- Establish policies and procedures and ensure they are enforced
- Require detailed expense report with original receipts and documentation attached
- Supervisor with knowledge of employees activities should be approving the report
- Ask questions and get a supported answer

## **Credit and Gasoline Card Disbursements**

- Use of entity credit cards, gasoline cards or open purchase orders for personal purchases
- Specific risks for credit purchases
  - Used at unauthorized vendors
  - Used for unauthorized purchases
  - The approved spending limit may be exceeded

## **Red Flags for Credit Purchases**

- Lack of policies and procedures for credit purchases
- Credit purchases are paid from the statements without detailed receipts for support
- Lack of monitoring of credit purchases
- The detailed credit receipt is not obtained, just the summary

- Credit bills go directly to purchaser versus a supervisor/monitor
- Credit purchases are higher than expected

## **Credit Fraud Prevention and Detection**

- Create and enforce adequate policies and procedures regarding credit purchases
- Review bills and support documentation submitted to ensure the purchases are approved, supported and for a public purpose
- When irregularities are found, follow up to ensure the purchases were appropriate
- Ensure items that were purchased were received and are onsite

## **Payroll Disbursements**

- Payroll fraud involves making false claims for compensation
- This can be achieved through schemes such as:
  - Adding “ghost” employees to payroll
  - Adding hours to timesheets that was not worked
  - Taking leave without using annual or sick leave
  - Manipulating benefit information

## **Payroll Fraud Red Flags**

- Unusual fluctuations in payroll expenses, including benefit line items
- Poor internal controls
- Employees with P.O. Box addresses
- Missing paychecks
- Employees with the same direct deposit account
- When questions are asked, you do not receive an answer

## **Payroll Fraud Prevention and Detection**

- Use the straight-line approach for payroll processing
- Review payroll registers regularly – ask questions and get supported answers
- Review personnel files to verify it is a real person and they are an employee (ghost employees can be real people)
- Monitor to ensure overtime is supported and reasonable
- Review leave reports for reasonableness
- Keep unused check stock secured
- Review returned checks for dual signatures
- Create and review error reports
  - Same bank account number
  - Same address